

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF EVERGREEN SEWAGE)
DISPOSAL SYSTEM, INC., FOR AN)
ADJUSTMENT OF RATES PURSUENT TO THE) CASE NO. 9514
ALTERNATIVE RATE FILING PROCEDURE)
FOR SMALL UTILITIES)

O R D E R

On February 13, 1986, Evergreen Sewage Disposal System, Inc., ("Evergreen") filed an application with the Commission to increase its sewer rate pursuant to 807 KAR 5:076, Alternative Rate Filing Adjustment Procedure for Small Utilities ("ARF"). Evergreen proposed rates which would produce additional revenues of approximately \$2,052 annually, an increase of 36 percent above test-period normalized revenues of \$5,700. Based on the findings herein, Evergreen has been granted an additional \$2,004 of annual revenues or approximately a 35 percent increase in annual revenues.

COMMENTARY

Evergreen is a privately-owned corporation which provides sewage disposal services to 38 residential customers in Franklin County, Kentucky.

TEST PERIOD

Evergreen proposed the 12-month period ending December 31, 1985, as the test period for determining the reasonableness of the

proposed rates. In order to expedite the processing of ARF cases, the staff performed a limited scope audit of Evergreen's financial records and financial statements for the test period in this case. The limited scope audit was performed on March 20, 1986, at the home of Ms. Clarice Howard, the bookkeeper for Evergreen. The audit report was filed on April 10, 1986. Evergreen's comments to the audit report were filed on May 2, 1986. Evergreen's comments did not alter the auditor's findings as represented in the audit report. Therefore, the Commission adopts the 1985 statement of operations as represented in the report on the limited audit for the test period in this case. In utilizing the historical test period, the Commission has given full consideration to known and measurable changes found reasonable.

REVENUES AND EXPENSES

Evergreen proposed several rate-making adjustments to the test period in this case. The adjustments are fair and reasonable with the following modifications:

Depreciation Expense

Evergreen reported \$3,596 in annual depreciation expense for the test period which was proposed to be included for rate-making purposes. The Commission's Order of August 1, 1977, in Case No. 6822, disallowed all depreciation expense for rate-making purposes because all of Evergreen's utility plant-in-service was financed

by contributions.¹ The Commission's Order of May 5, 1981, in Case No. 8047, which had a test period ended August 31, 1980, also disallowed all depreciation expense for rate-making purposes as all of Evergreen's utility plant-in-service was contributed.² In 1984, Evergreen added a new electrical pump in the amount of \$4,050 to its plant-in-service.³

The Commission is of the opinion that Evergreen is not entitled to depreciation expense for rate-making purposes on any utility plant-in-service acquired on or before August 31, 1980, as the assets were fully contributed. However, the Commission is also of the opinion that Evergreen is entitled to depreciation expense for rate-making purposes of the electrical pumps added since August 31, 1980, which are supported by original invoices. Using a 5-year useful life for the electrical pumps, the Commission has determined depreciation expense for rate-making purposes to be \$1,157 annually and has reduced depreciation expense for rate-making purposes by \$2,717 annually.

¹ Commission's Final Order in Case No. 6822 dated August 1, 1977, Application of Evergreen Sewage Disposal, Inc., a Kentucky Corporation, for an Order Pursuant to Chapter 278 of the Kentucky Revised Statutes for a Certificate of Public Convenience and Necessity Authorizing and Permitting Said Applicant to Construct a Waste Water Collection and Treatment System to Serve the Residents of Evergreen Subdivision in Franklin County, Kentucky, Finding No. 3.

² Commission's Final Order in Case No. 8047 dated May 5, 1981, Adjustment of Rate by Evergreen Sewage Disposal Company, Inc., of Franklin County, Kentucky, p. 2.

³ Response to Commission's Information Request dated May 8, 1986, Item No. 2.

Interest Expense

Evergreen reported \$329 in interest expense for the test period. Evergreen proposed a \$1,519 adjustment to this expense for the principal balance due on notes payable.⁴

The Commission is of the opinion that principal payments are not considered operating expenses from an accounting standpoint and thus should not be included for rate-making purposes. Therefore, the Commission has reduced Evergreen's proposed interest expense of \$1,848 to the test-period actual interest expense of \$329 for rate-making purposes.

After consideration of the aforementioned adjustments, the Commission finds Evergreen's adjusted test period operations to be as follows:

	<u>Audited Test Period Reported</u>	<u>Adjustments</u>	<u>Test Period Adjusted</u>
Operating Revenues	\$ 6,000	\$ <300>	\$5,700
Operating Expenses	<u>8,919</u>	<u><2,617></u>	<u>6,302</u>
Operating Income (Loss)	<u><2,919></u>	<u>2,317</u>	<u><602></u>
Interest Expense	<u>329</u>	<u>-0-</u>	<u>329</u>
NET INCOME (LOSS)	<u>\$<3,248></u>	<u>\$ 2,317</u>	<u>\$ <931></u>

REVENUE REQUIREMENTS

The adjusted test period results of operations on a net operating loss of \$602 is clearly unfair and unreasonable. The Commission is of the opinion that revenue requirements based on a .88 operating ratio and an allowance for income taxes is fair and

⁴ Application of Evergreen filed February 13, 1986, p. 2.

reasonable. Therefore, the Commission has determined Evergreen's revenue requirements as follows:

Operating Expenses	\$ 6,302
Income Taxes	188
	<u>6,490</u>
Operating Ratio	* .88
	<u>7,375</u>
Interest Expense	329
Revenue Requirement	<u>7,704</u>
Normalized Revenues	<5,700>
 NECESSARY INCREASE IN REVENUES	 <u>\$ 2,004</u>

An increase in Evergreen's operating revenues of \$2,004 annually will produce net income of approximately \$885 annually after all expenses. The Commission is of the opinion that \$885 annually is a fair and reasonable net income and with the expenses allowed for rate-making purposes herein will provide sufficient income for Evergreen to service its debt and will provide for reasonable equity growth.

SUMMARY

The Commission, after consideration of the evidence of record and being advised, is of the opinion and finds that:

1. The rate proposed by Evergreen would produce revenue in excess of that found reasonable herein and, therefore, should be denied upon application of KRS 278.030.

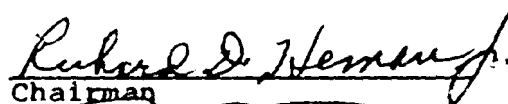
2. The rate in Appendix A is a fair, just and reasonable rate for Evergreen and will produce gross annual revenues sufficient to pay its operating expenses, service its debt, and provide a reasonable surplus for equity growth.

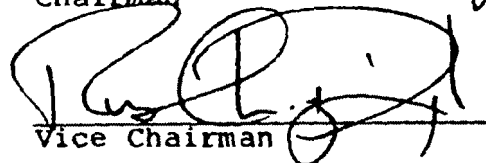
IT IS THEREFORE ORDERED that:

1. The rate proposed by Evergreen is hereby denied.
2. The rate in Appendix A is approved for service rendered on and after the date of this Order.
3. Within 30 days from the date of this Order, Evergreen shall file with this Commission its revised tariff setting out the rate approved herein.

Done at Frankfort, Kentucky, this 17th day of June, 1986.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 9514 DATED 6/17/86

The following rates and charges are prescribed for the customers in the area served by Evergreen Sewage Disposal System, Inc. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

MONTHLY

Single Family Residential (per residential user)	\$16.90
Multi-Family Residential (per residential equivalent)	\$16.90